



CARES Act – Tax & Financial Reporting Considerations

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Agenda

- Tax Concerns for Businesses
- Tax Impacts for Individuals
- Financial Reporting Considerations
- How Mercadien Can Help
- Q&A



CARES Act Background

- The Coronavirus Aid, Relief and Economic Security (CARES) Act (the “Act”) is:
 - \$2 trillion stimulus package
 - Allocated in an effort to mitigate the fallout from the COVID-19 crisis
 - Includes \$1.5 trillion in spending & tax cuts & \$500 billion in loans
 - \$454 billion of which was allocated to the Federal Reserve as the basis for additional lending
 - Includes various tax relief provisions for individuals & businesses

CARES Act Impact on Business Taxes

- Employee retention credit
- Delay of payment of employer payroll taxes
- Net operating loss changes
- Excess Business Loss Changes
- Interest Expense Disallowance Changes



Employee retention credit for employers

- Provides a refundable payroll tax credit for 50% of wages paid after March 12, 2020 and before Jan. 1, 2021 by eligible employers to certain employees
 - Wages include health benefits and is capped at the first \$10,000 in wages paid by the employer to an eligible employee
- Credit is available to employers (including nonprofits) whose operations have been fully or partially suspended
- It is also available to employers who have experienced a greater than 50% reduction in quarterly receipts, measured on a year-over-year basis

Employee retention credit for employers *(cont'd.)*

- Wages do not include amounts taken into account for purposes of the payroll credits, for required paid sick leave or paid family leave in the Families First Coronavirus Act
- Eligibility varies for employers with less than 100 full-time employees in 2019 vs. those with a larger number of full-time employees
- Other exceptions:
 - The credit is not available to employers receiving Small Business Interruption Loans under Sec. 1102 of the Act.
 - No credit is available for any period for which the employer is allowed a Work Opportunity Credit with respect to the employee.

Delay of payment of employer payroll taxes

- Taxpayers can defer paying the employer portion of payroll taxes through the end of 2020
- Payment for applicable employment taxes for the payroll tax deferral period won't be due before the applicable date
 - **Applicable employment taxes:** social security taxes and Railroad Retirement Tax Act (RRTA) taxes
 - **Payroll tax deferral period:** period beginning on the date of enactment of the Act and ending before Jan. 1, 2021
 - **Applicable date:** Dec. 31, 2021, with respect to 50% of the amounts to which employment taxes and self-employment tax apply, and Dec. 31, 2022, for the remaining 50% of those amounts.

Delay of payment of employer payroll taxes *(cont'd.)*

- Estimated tax payments, self-employment tax, third-party liability for withholding tax, and certified professional employer organizations (CPEOs) are all affected.
- Exception:
 - Rules won't apply to any taxpayer which has had indebtedness forgiven under Act Sec. 1106 with respect to a loan under Small Business Act Sec. 7(a)(36), as added by Act Sec. 1102, or under Act Sec. 1109.
- Effective date of these provisions applies to the period beginning on the date of enactment of the Act.

Additional Provisions to Note

- Allows net operating losses (NOLs) arising in a tax year beginning after Dec. 31, 2018 & before Jan. 1, 2021 to be carried back the five tax years preceding the tax year of such loss.
 - Applies to tax years beginning after Dec. 31, 2017, and on or before Dec. 31, 2017, to which NOLs arising in tax years beginning after Dec. 31, 2017 are carried.
- Temporarily modifies the loss limitation for non-corporate taxpayers so they can deduct excess business losses arising in 2018-2020
- Corporate minimum tax credit is accelerated
- Allows corporations to claim 100% of alternative minimum tax credits in 2019

Additional Provisions to Note *(cont'd.)*

- Deductibility of interest expense is temporarily increased
 - Increases the limitation on the deductibility of interest expense from 30% to 50% for tax years beginning in 2019 and 2020
 - Special rule for partnerships - increase in the limitation will not apply to partners in partnerships for 2019 (it applies only in 2020)
- Provides a technical correction to the Tax Cuts and Jobs Act of 2017 (TCJA), and specifically designates qualified improvement property (QI Property) as 15-year property for depreciation purposes

CARES Act & Individual Tax

- Main highlights:
 - Individual recovery rebate/credit
 - No 10% penalty on retirement plan distributions
 - No Required Minimum Distributions for 2020
 - \$300 Above the line charitable deduction
 - Modification of Charitable Contribution Limit
 - Student Loan repayment as tax-excluded fringe benefit



Individual Recovery Rebate/Credit

- Eligible Individuals can receive an income tax credit equal to the sum of:
 - \$1,200 (\$2,400 for joint returns) plus
 - \$500 for each qualifying child of the taxpayer
- Credit is refundable
- Individuals with no income or whose income comes from non-taxable means-tested benefit programs are eligible for the credit & advance rebate



Eligible Individuals

- Any individual other than a nonresident alien or an individual for whom a dependency deduction is allowable to another taxpayer for the tax year
- Estates and trusts **not** eligible
- Eligible individuals for 2019 are treated as having made an income tax payment for 2019 equal to the advance refund amount for 2019
 - Advance refund amount is the amount that would've been allowed as a credit for 2019 had the provision been in effect in 2019

Amount of Credit

- Amount of credit is reduced by 5% of taxpayer's adjusted gross income in excess of:
 - \$150,000 for a joint return
 - \$112,500 for head of household
 - \$75,000 for all other taxpayers



No 10% Additional Tax for COVID-19-Related Retirement Plan Distributions

- The 10% additional tax does not apply to any coronavirus-related distribution, up to \$100,000
 - Any distribution made on or after January 1, 2020 and before December 31, 2020, from an eligible retirement plan made to a qualified individual
 - Qualified individuals:
 - Got diagnosed with COVID-19 by a test approved by the CDC
 - Whose spouse or dependent is diagnosed
 - Experience adverse financial consequences as a result of being quarantined
 - Being furloughed or laid off or having work hours reduced
 - Unable to work due to lack of child care
 - Closing or reducing hours of a business owned or operated by the individual
 - Other factors determined by the Secretary of the Treasury

More on Distributions

- Distributions can be contributed back to retirement plans & can be included in income over 3 years
- Any individual who receives a coronavirus-related distribution may, at any time during the 3-year period beginning on the day after the date on which the distribution was received, make one or more contributions in an aggregate amount not to exceed the amount of such distribution to an eligible retirement plan of which such individual is a beneficiary and to which a rollover contribution of such distribution could be made

RMD Requirement Waived for 2020

- Required minimum distribution (RMD) requirements do not apply to:
 - A defined contribution plan
 - A defined contribution plan which is an eligible deferred compensation plan, but only if the plan is maintained by an employer
 - An individual retirement plan
- RMD requirements do not apply to any distribution which is required to be made in calendar year 2020 by reason of:
 - A required beginning date occurring in calendar year 2020
 - Such distribution not having been made before January 1, 2020

Charitable Donations

- *\$300 above-the-line charitable deduction* – added to the calculation of gross income, for the amount (not to exceed \$300) of qualified charitable contributions made by an eligible individual
- *Modification of limitations on individual cash charitable contributions during 2020* – qualified contributions are disregarded in applying the 60% limit on cash contributions of individuals and on carryovers of excess contributions
- *Increase in limits on contributions of food inventory* – A donation of food inventory to a charitable organization that will use it for the care of the ill, the needy, or infants is deductible in an amount up to basis plus half the gain that would be realized on the sale of the food (not to exceed twice the basis). Under the CARES Act, in the case of any applicable charitable contribution of food during 2020, the taxable income limits are 25% rather than 15%.

Tax-excluded education payments

- Tax-excluded education payments by an employer temporarily include student loan repayments
- CARES Act adds to the types of educational payments that are excluded from employee gross income eligible student loan repayments made before January 1, 2021
- Payments are subject to overall \$5,250 per employee limit for all educational payments



Financial Reporting Considerations

- COVID-19 is a significant subsequent event for 2019 period/year end financial statements – resulting in robust disclosure of the pandemic and resulting impact on the entity
- Need to assess the ability to continue as a going concern beyond one year
- 2020 period/year end financial statements will be the first reporting period when the impacts of the COVID-19 coronavirus outbreak are reflected in the financial statements

Subsequent Event Disclosures – 2019 Period/Year End

- While the outbreak of COVID 19 began in China in December 2019, the pandemic and significant deterioration in economic conditions is generally viewed to be a year 2020 event – therefore expected to be a non-recognized subsequent event for 2019 reporting periods.
- *Key areas to be included in the subsequent event footnote:*
 - Overview of the coronavirus pandemic
 - Current known and likely future impacts
 - Responses taken to date by management
 - Statement regarding future uncertainty

Current Known or Likely Impacts

- Location closures
- Loss of customers
- Supply chain interruptions
- Production delays
- Regulatory changes
- Workforce changes
- Risk of loss on significant contracts
- Potential future impairments of assets and/or market value declines



Going Concern Assessment

- The pandemic likely has impacted the factors the entity has historically relied on to evaluate their ability to continue as a going concern for the upcoming year.
- Since the look forward period is one year from the date the financial statements are issued, it is required that an analysis is performed through the date financial statements are issued.
 - Projections of impact of COVID-19 on the entity must be included
 - Adverse factors such as reduced product demand, facility closures, and the ability to meet debt covenants or other key financial ratios should all be considered.

Impact on 2020 Financial Statements

- Key areas that companies may need to consider when preparing their 2020 financial statements include:
 - Going concern
 - Impairment of non-financial assets
 - Property, plant and equipment (PPE) & intangible assets
 - Fair value measurement
 - Impact on employee benefits & employer obligations
 - Inventories
 - Subsequent events
 - Disclosures
 - Risk & uncertainties

Other Financial Reporting Considerations

- Debt covenant violations
 - Classification for 2019 period end
 - Disclosures
- Impact on Internal Controls
- Expanded management representations related to COVID 19
 - Internal controls
 - Recognition and disclosure
 - Going concern



How We Can Help

- Mercadien newsletters and webinars
- Assistance with cash flow projections
- Advisement on Federal/State relief programs
- SBA Loan Programs – application, management, forgiveness
- Implementation of tax relief provisions
- Advisement on financial reporting matters
- Business interruption claims assistance
- General advisory services in connection with disaster planning and management

Questions?



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